

RENT A CENTER INC DE
Form 10-Q
May 02, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 0-25370

Rent-A-Center, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

45-0491516

*(I.R.S. Employer
Identification No.)*

**5501 Headquarters Drive
Plano, Texas 75024**

*(Address, including zip code of registrant's
principal executive offices)*

Registrant's telephone number, including area code: **972-801-1100**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer: Accelerated filer: Non-accelerated filer: Smaller reporting company:

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2008:

Class	Outstanding
Common stock, \$.01 par value per share	66,718,581

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The accompanying notes are an integral part of these statements.

Table of Contents**RENT-A-CENTER, INC. AND SUBSIDIARIES****Item 1. Financial Statements.****CONSOLIDATED STATEMENTS OF EARNINGS****(In thousands, except per share data)**

	Three months ended March	
	2008	2007
	31,	
	Unaudited	
Revenues		
Store		
Rentals and fees	\$ 640,686	\$ 660,113
Merchandise sales	85,339	68,337
Installment sales	9,885	8,410
Other	9,619	7,176
Franchise		
Merchandise sales	9,767	9,925
Royalty income and fees	1,340	1,338
	756,636	755,299
Operating expenses		
Direct store expenses		
Cost of rentals and fees	146,162	143,069
Cost of merchandise sold	63,325	46,030
Cost of installment sales	4,020	3,545
Salaries and other expenses	417,414	420,727
Franchise cost of merchandise sold	9,396	9,487
	640,317	622,858
General and administrative expenses	30,949	30,998
Amortization of intangibles	4,930	4,038
Litigation expense		51,250
Restructuring charge	2,900	
Total operating expenses	679,096	709,144
Operating profit	77,540	46,155
Interest expense	20,927	24,096
Interest income	(1,864)	(1,761)
Earnings before income taxes	58,477	23,820
Income tax expense	22,119	8,717

NET EARNINGS	\$ 36,358	\$ 15,103
Basic earnings per common share	\$ 0.55	\$ 0.21
Diluted earnings per common share	\$ 0.54	\$ 0.21

See accompanying notes to consolidated financial statements.

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Table of Contents**RENT-A-CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS****(In thousands, except share and par value data)**

	March 31, 2008 Unaudited	December 31, 2007
ASSETS		
Cash and cash equivalents	\$ 78,628	\$ 97,375
Accounts receivable, net of allowance for doubtful accounts of \$5,140 in 2008 and \$4,945 in 2007	40,316	41,629
Prepaid expenses and other assets	50,455	56,384
Rental merchandise, net		
On rent	725,204	735,672
Held for rent	191,121	202,298
Merchandise held for installment sale	2,623	2,334
Property assets, net	216,415	222,157
Goodwill, net	1,254,916	1,255,163
Intangible assets, net	10,319	13,931
	\$ 2,569,997	\$ 2,626,943
LIABILITIES		
Accounts payable trade	\$ 107,064	\$ 100,419
Accrued liabilities	321,483	310,420
Deferred income taxes	31,557	9,678
Senior debt	825,238	959,335
Subordinated notes payable	300,000	300,000
	1,585,342	1,679,852
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Common stock, \$.01 par value; 250,000,000 shares authorized; 104,548,451 and 104,540,127 shares issued in 2008 and 2007, respectively	1,045	1,045
Additional paid-in capital	675,153	674,032
Retained earnings	1,105,996	1,069,553
Treasury stock, 37,836,049 shares at cost in 2008 and 2007	(797,539)	(797,539)
	984,655	947,091
	\$ 2,569,997	\$ 2,626,943

See accompanying notes to consolidated financial statements.

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RENT-A-CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March	
	2008	2007
(In thousands)	31, Unaudited	
Cash flows from operating activities		
Net earnings	\$ 36,358	\$ 15,103
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of rental merchandise	143,190	139,861
Bad debt expense	382	539
Stock-based compensation expense	1,036	1,399
Depreciation of property assets	18,188	16,927
Loss on sale or disposal of property assets	2,187	3,467
Amortization of financing fees	455	456
Tax benefit related to stock option exercises	(17)	(483)
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	930	(3,198)
Accounts payable trade	6,644	10,228
Net cash provided by operating activities	128,307	86,044
Purchase of property assets	(15,128)	(27,448)
Acquisitions of businesses, net of cash acquired	(1,365)	(410)
Cash flows from financing activities		
Tax benefit related to stock option exercises	17	483
Proceeds from debt	88,480	171,275
Net cash used in financing activities	(132,393)	(71,117)
Cash and cash equivalents at beginning of period	97,375	92,344

See accompanying notes to consolidated financial statements.

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**RENT-A-CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. *Significant Accounting Policies and Nature of Operations.*

The interim financial statements of Rent-A-Center, Inc. included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Commission's rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. We suggest that these financial statements be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2007. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly our results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

Principles of Consolidation and Nature of Operations. These financial statements include the accounts of Rent-A-Center, Inc. and its direct and indirect subsidiaries. All intercompany accounts and transactions have been eliminated. Unless the context indicates otherwise, references to Rent-A-Center refer only to Rent-A-Center, Inc., the parent, and references to we, us and our refer to the consolidated business operations of Rent-A-Center and all of its direct and indirect subsidiaries.

Our primary operating segment consists of leasing household durable goods to customers on a rent-to-own basis. We also offer merchandise on an installment sales basis in certain of our stores. At March 31, 2008, we operated 3,066 company-owned stores nationwide and in Canada and Puerto Rico, including 24 retail installment sales stores under the names Get It Now and Home Choice and eight rent-to-own stores in Canada under the name Rent-A-Centre.

We also offer an array of financial services in certain of our existing rent-to-own stores under the names Cash AdvantEdge and RAC Financial Services. The financial services offered include, but are not limited to, short term secured and unsecured loans, debit cards, check cashing and money transfer services. As of March 31, 2008, we offered financial services in 280 of our existing rent-to-own stores in 15 states.

ColorTyme, Inc., an indirect wholly-owned subsidiary of Rent-A-Center, is a nationwide franchisor of rent-to-own stores. At March 31, 2008, ColorTyme had 227 franchised stores operating in 33 states. ColorTyme's primary source of revenue is the sale of rental merchandise to its franchisees, who in turn offer the merchandise to the general public for rent or purchase under a rent-to-own program. The balance of ColorTyme's revenue is generated primarily from royalties based on franchisees' monthly gross revenues.

New Accounting Pronouncements. From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed in these financial statements and notes or in our financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2007, we believe the impact of any other recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our consolidated financial statements upon adoption.

2. *Stock Based Compensation.* On January 30, 2008, the Compensation Committee of the Board of Directors of Rent-A-Center approved the issuance of 235,120 long-term incentive awards to certain key employees under the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan and the Rent-A-Center, Inc. 2006 Equity Incentive Plan, of which 165,850 were stock options and 69,270 were restricted stock units. The awards were issued as equity awards

which were separated into three distinct tranches, (i) 50% of which were issued in options to purchase Rent-A-Center's common stock vesting ratably over a four year period, (ii) 25% of which were issued in restricted stock units which will vest upon the employee's completion of three years of continuous employment with us from January 30, 2008, (iii) 25% of which were issued in restricted stock units subject to performance-based vesting based upon our achievement of a specified three year earnings before interest, taxes, depreciation and amortization (EBITDA).

3. *Income Taxes.* We are subject to federal, state, local and foreign income taxes. With few exceptions, we are no longer subject to U.S. federal, state, foreign and local income tax examinations by tax authorities for years before 2001. The appeals process related to the IRS audit for the taxable years 2001 through 2003 has been completed and is expected to be final in the next 90 days. Our income tax filing positions and deductions have been sustained in all material respects and adjustments, if any, will not result in a material change to our consolidated statement of earnings, financial condition,

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statement of cash flows or earnings per share. During 2007, the IRS commenced an examination of our income tax returns for 2004 and 2005 that is anticipated to be completed by the end of 2008.

4. *Deferred Compensation Plan.* We have implemented the Rent-A-Center, Inc. Deferred Compensation Plan (the Deferred Compensation Plan), an unfunded, nonqualified deferred compensation plan for a select group of our key management personnel and highly compensated employees. The Deferred Compensation Plan first became available to eligible employees in July 2007, with deferral elections taking effect as of August 3, 2007.

The Deferred Compensation Plan allows participants to defer up to 50% of their base compensation and up to 100% of any bonus compensation. Participants may invest the amounts deferred in measurement funds that are the same funds offered as the investment options in the Rent-A-Center, Inc. 401(k) Retirement Savings Plan. We may make discretionary contributions to the Deferred Compensation Plan, which are subject to a five-year graded vesting schedule based on the participant's years of service with us. We are obligated to pay the deferred compensation amounts in the future in accordance with the terms of the Deferred Compensation Plan. Assets and associated liabilities of the Deferred Compensation Plan are included in prepaid and other assets, and accrued liabilities, respectively, in our consolidated balance sheet for the period ended March 31, 2008. The deferred compensation plan liability was approximately \$344,000 as of March 31, 2008.

5. *Reconciliation of Merchandise Inventory.*

	Three months ended March 31, 2008	Three months ended March 31, 2007
	(In thousands)	
Beginning merchandise value	\$ 940,304	\$ 1,058,587
Inventory additions through acquisitions	481	126
Purchases	215,451	232,401
Depreciation of rental merchandise	(143,190)	(139,861)
Cost of goods sold	(67,345)	(49,575)
Skips and stolens	(19,194)	(18,106)
Other inventory deletions ⁽¹⁾	(7,559)	(11,272)
Ending merchandise value	\$ 918,948	\$ 1,072,300

- (1) Other inventory deletions include loss/damage waiver claims and unrepairable and missing merchandise, as well as acquisition

write-offs. 2008
other inventory
deletions also
include
write-offs
associated with
the 2007 store
consolidation
plan.

6. *Intangible Assets and Acquisitions.*

Intangibles consist of the following (in thousands):

	Avg.	March 31, 2008		December 31, 2007	
	Life	Gross	Accumulated	Gross	Accumulated
	(years)	Carrying	Amortization	Carrying	Amortization
		Amount		Amount	
Amortizable intangible assets					
Non-compete agreements	3	\$ 6,868	\$ 5,876	\$ 7,017	\$ 5,845
Customer relationships	2	61,157	52,926	61,073	49,748
Other intangibles	3	3,264	2,168	3,264	1,830
Total		71,289	60,970	71,354	57,423
Intangible assets not subject to amortization					
Goodwill		1,354,068	99,152	1,354,315	99,152
Total intangibles		\$ 1,425,357	\$ 160,122	\$ 1,425,669	\$ 156,575

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The estimated remaining amortization expense, assuming current intangible balances and no new acquisitions, for each of the years ending December 31, is as follows:

	Estimated Amortization Expense (In thousands)
2008	\$ 9,633
2009	612
2010	40
2011	34
Total	\$ 10,319

Changes in the net carrying amount of goodwill are as follows:

	At March 31, 2008	At December 31, 2007
	(In thousands)	
Balance as of January 1,	\$ 1,255,163	\$ 1,253,715
Additions from acquisitions	788	13,310
Goodwill allocated to stores sold	(1,371)	
Post purchase price allocation adjustments	336	(11,862)
Balance as of the end of the period	\$ 1,254,916	\$ 1,255,163

The post purchase price allocation adjustments in 2008 were attributable to inventory charge-offs for unrentable or missing merchandise and additional liabilities assumed associated with acquisitions. The post purchase price allocation adjustments in 2007 were primarily attributable to the tax benefit associated with items recorded as goodwill that were deductible for tax purposes and inventory charge-offs for unrentable or missing merchandise acquired in the acquisition of Rent-Way, Inc. (Rent-Way).

Acquisitions

On November 15, 2006, we completed the acquisition of Rent-Way and its subsidiaries, whereby Rent-Way became an indirect wholly owned subsidiary of Rent-A-Center. At the time of the acquisition, Rent-Way operated 782 stores in 34 states. The total purchase price of approximately \$622.5 million included cash payments and borrowings under our senior credit facilities and direct transaction costs of approximately \$7.4 million. We funded the acquisition with a \$600.3 million increase in our senior credit facilities. The operating results of Rent-Way have been included in the consolidated financial statements since the acquisition date of November 15, 2006.

Restructuring charges were included in the purchase price allocation, which were for employment termination costs in connection with closing Rent-Way's corporate headquarters and for reserves put into place for lease buyouts for acquired stores which were closed post acquisition in compliance with management's pre-acquisition plans. We expect that the termination costs will be completed by the second quarter of 2010 and the reserves for lease buyouts will be completed no later than the second quarter of 2012. The following table summarizes activity for restructuring charges (in thousands):

Balance at December 31, 2007	\$ 8,217
Adjustment to accrual	

Cash activity	(1,226)
Balance at March 31, 2008	\$ 6,991

7. *Restructuring.* On December 3, 2007, we announced our plan to close approximately 280 stores. The decision to close these stores was based on our analysis and evaluation of every market in which we operated based on operating results, competitive positioning, and growth potential. As a result, we identified 283 stores that we intend to close and merge. As of March 31, 2008, we closed or merged 280 stores and expect to close or merge two stores in the second quarter of 2008, with one store remaining open.

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We estimated we would incur restructuring expenses related to the store consolidation plan and other restructuring items in the range of \$36.0 million to \$43.0 million, substantially all of which would be recorded in the fourth quarter of 2007, based on the closing date of the stores. We recorded restructuring expenses in the amounts of \$2.9 million and \$38.7 million in the first quarter of 2008 and fourth quarter of 2007, respectively. The following table presents the range of estimated charges as of December 31, 2007 and the total store consolidation plan charges and other restructuring items recorded through March 31, 2008.

	Closing Plan Estimate As of December 31, 2007	Expenses Recognized Through 2008 (In thousands)	Estimated Remaining Charges as of March 31, 2008
Lease obligations	\$ 26,061-\$29,223	\$ 24,506	\$ 1,555-\$4,717
Fixed asset disposals	11,006 - 11,516	11,429	0 - 87
Other costs	2,468 - 6,704	5,678	0 - 1,026
Total	\$ 39,535-\$47,443	\$ 41,613	\$ 1,555-\$5,830

Our expected total cash outlay related to the store consolidation plan and other restructuring items is expected to be between \$26.1 million and \$30.4 million. The total amount of cash used through March 31, 2008 was approximately \$7.3 million, which primarily related to lease terminations. We expect to use approximately \$18.8 million to \$23.1 million of cash on hand for future payments, which will primarily relate to the satisfaction of lease obligations at the stores. We expect the lease obligations will be substantially settled in twelve to eighteen months, with total completion no later than the second quarter of 2013.

The following table shows the changes in the accrual balance from December 31, 2007 to March 31, 2008, relating to our restructuring (in thousands):

Balance at December 31, 2007	\$ 22,827
Adjustment to accrual	
Cash activity	(7,260)
Balance at March 31, 2008	\$ 15,567

8. *Earnings Per Share.*

Basic and diluted earnings per common share is computed based on the following information:

(In thousands, except per share data)

	Three months ended March 31, 2008		
	Net earnings	Shares	Per share
Basic earnings per common share	\$ 36,358	66,710	\$ 0.55
Effect of dilutive stock-based awards		465	
Diluted earnings per common share	\$ 36,358	67,175	\$ 0.54

	Three months ended March 31, 2007		
	Net		
	earnings	Shares	Per share
Basic earnings per common share	\$ 15,103	70,286	\$ 0.21
Effect of dilutive stock-based awards		1,052	
Diluted earnings per common share	\$ 15,103	71,338	\$ 0.21

For the three months ended March 31, 2008 and 2007, the number of stock options that were outstanding but not included in the computation of diluted earnings per common share because their exercise price was greater than the average market price of Rent-A-Center common stock, and therefore anti-dilutive, was 3,987,410 and 1,811,631, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

The statements, other than statements of historical facts, included in this report are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, would, expect, intend, could, estimate, should, anticipate or believe. We believe that the expectations reflected in our forward-looking statements are accurate. However, we cannot assure you that these expectations will occur. Our actual future performance could differ materially from such statements. Factors that could cause or contribute to these differences include, but are not limited to:

uncertainties regarding the ability to open new rent-to-own stores;

our ability to acquire additional rent-to-own stores or customer accounts on favorable terms;

our ability to successfully add financial services locations within our existing rent-to-own stores;

our ability to identify and successfully enter new lines of business offering products and services that appeal to our customer demographic, including our financial services products;

our ability to enhance the performance of acquired stores;

our ability to retain the revenue associated with acquired customer accounts;

our ability to control costs;

our ability to identify and successfully market products and services that appeal to our customer demographic;

our ability to enter into new and collect on our rental purchase agreements;

our ability to enter into new and collect on our short term loans;

the passage of legislation adversely affecting the rent-to-own or financial services industries;

interest rates;

economic pressures, such as high fuel and utility costs, affecting the disposable income available to our targeted consumers;

changes in our stock price and the number of shares of common stock that we may or may not repurchase;

changes in estimates relating to self-insurance liabilities and income tax and litigation reserves;

changes in our effective tax rate;

our ability to maintain an effective system of internal controls;

changes in the number of share-based compensation grants, methods used to value future share-based payments and changes in estimated forfeiture rates with respect to share-based compensation;

the resolution of our litigation;

the court hearing the *Shafer/Johnson* case could refuse to approve the settlement or could require changes to the settlement that are unacceptable to us or the plaintiffs;

one or more parties filing an objection to the settlement of the *Shafer/Johnson* case;

a specified percentage of *Shafer/Johnson* class members timely and validly opting out of the settlement; and

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RENT-A-CENTER, INC. AND SUBSIDIARIES

the other risks detailed from time to time in our SEC reports.

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under Risk Factors later in this report as well as our Annual Report on Form 10-K for our fiscal year ended December 31, 2007. You should not unduly rely on these forward-looking statements, which speak only as of the date of this report. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Our Business

We are the largest operator in the United States rent-to-own industry with an approximate 36% market share based on store count. At March 31, 2008, we operated 3,066 company-owned stores nationwide and in Canada and Puerto Rico, including 24 retail installment sales stores under the names Get It Now and Home Choice and eight rent-to-own stores located in Canada under the name Rent-A-Centre. Our subsidiary, ColorTyme, is a national franchisor of rent-to-own stores. At March 31, 2008, ColorTyme had 227 franchised rent-to-own stores in 33 states.

Our stores generally offer high quality durable products such as major consumer electronics, appliances, computers, and furniture and accessories under flexible rental purchase agreements that generally allow the customer to obtain ownership of the merchandise at the conclusion of an agreed-upon rental period. These rental purchase agreements are designed to appeal to a wide variety of customers by allowing them to obtain merchandise that they might otherwise be unable to obtain due to insufficient cash resources or a lack of access to credit. These agreements also cater to customers who only have a temporary need, or who simply desire to rent, rather than purchase, the merchandise. Rental payments are made generally on a weekly basis and, together with applicable fees, constitute our primary revenue source.

Our expenses primarily relate to merchandise costs and the operations of our stores, including salaries and benefits for our employees; occupancy expense for our leased real estate; advertising expenses; lost, damaged, or stolen merchandise; fixed asset depreciation; and corporate and other expenses.

We have pursued an aggressive growth strategy since 1993. We have sought to acquire underperforming rent-to-own stores to which we could apply our operating model as well as open new stores. As a result, the acquired stores have generally experienced more significant revenue growth during the initial periods following their acquisition than in subsequent periods. Typically, a newly opened rent-to-own store is profitable on a monthly basis in the ninth to twelfth month after its initial opening. Historically, a typical store has achieved cumulative break-even profitability in 18 to 24 months after its initial opening. Total financing requirements of a typical new store approximate \$500,000, with roughly 75% of that amount relating to the purchase of rental merchandise inventory. A newly opened store historically has achieved results consistent with other stores that have been operating within the system for greater than two years by the end of its third year of operation. As a result, our quarterly earnings are impacted by how many new stores we opened during a particular quarter and the quarters preceding it. Because of significant growth since our formation, our historical results of operations and period-to-period comparisons of such results and other financial data, including the rate of earnings growth, may not be meaningful or indicative of future results.

In addition, we strategically open or acquire stores near market areas served by existing stores (cannibalize) to enhance service levels, gain incremental sales and increase market penetration. This planned cannibalization may negatively impact our same store revenue and cause us to grow at a slower rate. There can be no assurance that we will open any new rent-to-own stores in the future, or as to the number, location or profitability thereof.

We also offer financial services products such as short term secured and unsecured loans, debit cards, check cashing and money transfer services in some of our existing rent-to-own stores under the trade names Cash AdvantEdge and RAC Financial Services. As of March 31, 2008, we offered some or all of these financial services products in 280 Rent-A-Center store locations in 15 states. We expect to offer such financial services products in approximately 425 Rent-A-Center store locations by the end of 2008. There can be no assurance that we will be successful in our efforts to expand our financial services operations or that such operations, should they be added, will prove to be profitable.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Recent Developments

Store Growth. As of April 30, 2008, we have acquired accounts from seven locations, sold five stores and merged five stores with existing locations during the second quarter of 2008. Additionally, as of April 30, 2008, we have added financial services to 25 additional existing rent-to-own locations and closed one location during the second quarter of 2008.

Critical Accounting Policies Involving Critical Estimates, Uncertainties or Assessments in Our Financial Statements

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent losses and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. In applying accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. We believe the following are areas where the degree of judgment and complexity in determining amounts recorded in our consolidated financial statements make the accounting policies critical.

Self-Insurance Liabilities. We have self-insured retentions with respect to losses under our workers' compensation, general liability and auto liability insurance policies. We establish reserves for our liabilities associated with these losses by obtaining forecasts for the ultimate expected losses and estimating amounts needed to pay losses within our self-insured retentions.

Our loss exposure has increased, primarily as a result of our growth. We continually institute procedures to manage our loss exposure and increases in health care costs associated with our insurance claims through a greater focus on the risk management function, a transitional duty program for injured workers, ongoing safety and accident prevention training, and various programs designed to minimize losses and improve our loss experience in our store locations. We make assumptions on our liabilities within our self-insured retentions using actuarial loss forecasts, company specific development factors, general industry loss development factors, and third party claim administrator loss estimates which are based on known facts surrounding individual claims. These assumptions incorporate expected increases in health care costs. Periodically, we reevaluate our estimate of liability within our self-insured retentions. At that time, we evaluate the adequacy of our accruals by comparing amounts accrued on our balance sheet for anticipated losses to our updated actuarial loss forecasts and third party claim administrator loss estimates, and make adjustments to our accruals as needed.

As of March 31, 2008, the amount accrued for losses within our self-insured retentions with respect to workers' compensation, general liability and auto liability insurance was \$113.5 million, as compared to \$109.5 million at December 31, 2007 and \$101.4 million at March 31, 2007. If any of the factors that contribute to the overall cost of insurance claims were to change, the actual amount incurred for our self-insurance liability would be directly affected. While we believe our loss prevention programs will reduce our total cost for self-insurance claims, our actual cost could be greater than the amounts currently accrued.

Litigation Reserves. We are the subject of litigation in the ordinary course of our business. Historically, our litigation has involved lawsuits alleging various regulatory violations. In preparing our financial statements at a given point in time, we account for loss contingencies pursuant to the provisions of SFAS No. 5 and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss - An Interpretation of FASB Statement No. 5* (FIN 14), which require that we accrue for losses that are both probable and reasonably estimable.

Each quarter, we make estimates of our probable losses, if reasonably estimable, and record such amounts in our consolidated financial statements. These amounts represent our best estimate, or may be the minimum range of probable loss when no single best estimate is determinable. We, together with our counsel, monitor developments related to these legal matters and, when appropriate, adjustments are made to reflect current facts and circumstances. We expense legal fees and expenses incurred in connection with the defense of all of our litigation at the time such amounts are invoiced or otherwise made known to us.

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Our accruals relating to probable losses for our outstanding litigation follow:

	At March 31, 2008	At March 31, 2007
	(In millions)	
<i>Shafer/Johnson Matter</i>	\$ 11.0	\$
<i>California Attorney General Settlement</i>	9.6	9.6
<i>Perez Matter</i>		109.3
<i>Other Litigation</i>	1.1	2.6
<i>Legal Fees and Expenses</i>		1.9
Total Accrual	\$ 21.7	\$ 123.4

As with most litigation, the ultimate outcome of our pending litigation is uncertain. Additional developments in our litigation or other adverse or positive developments or rulings in our litigation could affect our assumptions and, thus, our accrual. Our estimates with respect to accrual for our litigation expenses reflect our judgment as to the appropriate accounting charge at the end of a period under SFAS No. 5 and FIN 14. Factors that we consider in evaluating our litigation reserves include:

the procedural status of the matter;

our views and the views of our counsel as to the probability of a loss in the matter;

the relative strength of the parties' arguments with respect to liability and damages in the matter;

settlement discussions, if any, between the parties;

how we intend to defend ourselves in the matter; and

our experience.

Significant factors that may cause us to increase or decrease our accrual with respect to a matter include:

judgments or finding of liability against us in the matter by a trial court;

the granting of, or declining to grant, a motion for class certification in the matter;

definitive decisions by appellate courts in the requisite jurisdiction interpreting or otherwise providing guidance as to applicable law;

favorable or unfavorable decisions as the matter progresses;

settlements agreed to in principle by the parties in the matter, subject to court approval; and

final settlement of the matter.

Income Taxes. Our annual tax rate is affected by many factors including the mix of our earnings, legislation and acquisitions and is based on our income, statutory tax rates and tax planning opportunities available to us in the jurisdictions in which we operate. Tax laws are complex and subject to differing interpretations between the taxpayer and the taxing authorities. Significant judgment is required in determining our tax expense, evaluating our tax

positions and evaluating uncertainties under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48). As required by FIN 48, we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon the ultimate settlement with the relevant tax authority. We review our tax positions quarterly and adjust the balance as new information becomes available. Since our adoption of FIN 48, there have been no material changes to our positions for unrecognized tax benefits.

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If we make changes to our accruals with respect to our self-insurance liabilities, or litigation or income tax reserves in accordance with the policies described above, these changes would impact our earnings. Increases to our accruals would reduce earnings and, similarly, reductions to our accruals would increase our earnings. A pre-tax change of \$1.1 million in our estimates would result in a corresponding \$0.01 change in our earnings per common share.

Stock-Based Compensation Expense. We account for stock-based compensation expense under Statement of Financial Accounting Standards No. 123, *Share-Based Payment* (SFAS 123R) and recognize share-based payment awards to our employees and directors at the estimated fair value on the grant date. Determining the fair value of any share-based awards requires information about several variables including, but not limited to, expected stock volatility over the terms of the awards, expected dividend yields and the predicted employee exercise behavior. We base expected life on historical exercise and post-vesting employment-termination experience, and expected volatility on historical realized volatility trends. In addition, all stock-based compensation expense is recorded net of an estimated forfeiture rate. The forfeiture rate is based upon historical activity and is analyzed at least quarterly as actual forfeitures occur. Stock options granted during the quarter ended March 31, 2008 were valued using the binomial method pricing model with the following assumptions for employee options: expected volatility of 33.90% to 41.70%, a risk-free interest rate of 2.88% to 3.17%, no dividend yield, and an expected life of 4.44 years. For non-employee director options, the stock options granted during the quarter ended March 31, 2008 were valued using the binomial method pricing model with the following assumptions: expected volatility of 41.30%, a risk-free interest rate of 3.54%, no dividend yield, and an expected life of 6.90 years. During the quarter ended March 31, 2008, we recognized \$1.0 million in pre-tax compensation expense related to stock options and restricted stock units granted. Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our consolidated financial statements provide a meaningful and fair perspective of our company. However, we do not suggest that other general risk factors, such as those discussed later in this report and in our Annual Report on Form 10-K for our fiscal year ended December 31, 2007 as well as changes in our growth objectives or performance of new or acquired stores, could not adversely impact our consolidated financial position, results of operations and cash flows in future periods.

Significant Accounting Policies

Our significant accounting policies are summarized below and in Note A to our consolidated financial statements included in our Annual Report on Form 10-K.

Revenue. Merchandise is rented to customers pursuant to rental purchase agreements which provide for weekly, semi-monthly or monthly rental terms with non-refundable rental payments. Generally, the customer has the right to acquire title either through a purchase option or through payment of all required rentals. Rental revenue and fees are recognized over the rental term and merchandise sales revenue is recognized when the customer exercises the purchase option and pays the cash price due. Cash received prior to the period in which it should be recognized is deferred and recognized according to the rental term. Revenue is accrued for uncollected amounts due based on historical collection experience. However, the total amount of the rental purchase agreement is not accrued because the customer can terminate the rental agreement at any time and we cannot enforce collection for non-payment of future rents.

Revenue with respect to retail installment sales is recognized at the time of such retail sale, as is the cost of the merchandise sold, net of a provision for uncollectible accounts.

The revenue from our financial services is recorded depending on the type of transaction. Fees collected on loans are recognized ratably over the term of the loan. For money orders, wire transfers, check cashing and other customer service type transactions, fee revenue is recognized at the time the service is performed.

Franchise Revenue. Revenue from the sale of rental merchandise is recognized upon shipment of the merchandise to the franchisee. Franchise fee revenue is recognized upon completion of substantially all services and satisfaction of all material conditions required under the terms of the franchise agreement.

Depreciation of Rental Merchandise. Depreciation of rental merchandise is included in the cost of rentals and fees on our statement of earnings. We depreciate our rental merchandise using the income forecasting method. Under the income forecasting method, merchandise held for rent is not depreciated and merchandise on rent is depreciated in the

proportion of rents received to total rents provided in the rental contract, which is an activity-based method similar to the units of production method. On computers that are 27 months old or older and which have become idle, depreciation is recognized

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using the straight-line method for a period of at least six months, generally not to exceed an aggregate depreciation period of 36 months.

Cost of Merchandise Sold. Cost of merchandise sold represents the book value net of accumulated depreciation of rental merchandise at time of sale.

Salaries and Other Expenses. Salaries and other expenses include all salaries and wages paid to store level employees, together with district managers' salaries, travel and occupancy, including any related benefits and taxes, as well as all store level general and administrative expenses and selling, advertising, insurance, occupancy, delivery, fixed asset depreciation and other operating expenses.

General and Administrative Expenses. General and administrative expenses include all corporate overhead expenses related to our headquarters such as salaries, taxes and benefits, occupancy, administrative and other operating expenses.

Results of Operations**Three Months Ended March 31, 2008 compared to Three Months Ended March 31, 2007**

Store Revenue. Total store revenue increased by \$1.5 million, or 0.2%, to \$745.5 million for the three months ended March 31, 2008 as compared to \$744.0 million for the three months ended March 31, 2007. The increase in total store revenue was primarily attributable to an increase in same store sales of 2.8%, offset by a reduction in revenue as a result of approximately 315 fewer stores in the 2008 period primarily due to the 2007 store consolidation plan.

Same store revenues represent those revenues earned in 2,336 stores that were operated by us for each of the entire three month periods ended March 31, 2008 and 2007. Same store revenues increased by \$14.5 million, or 2.8%, to \$539.2 million for the three months ended March 31, 2008 as compared to \$524.7 million in 2007. This increase in same store revenues was primarily attributable to a higher level of merchandise sales during the quarter ended March 31, 2008 as compared to 2007.

Franchise Revenue. Total franchise revenue decreased by \$156,000, or 1.4%, to \$11.1 million for the three months ended March 31, 2008 as compared to \$11.3 million in 2007. This decrease was primarily attributable to a decrease in the number of products sold to franchisees in the first quarter of 2008 as compared to the first quarter of 2007 due to fewer franchise stores in the first quarter of 2008.

Cost of Rentals and Fees. Cost of rentals and fees consists of depreciation of rental merchandise and the costs associated with our membership programs. Cost of rentals and fees for the three months ended March 31, 2008 increased by \$3.1 million, or 2.2%, to \$146.2 million as compared to \$143.1 million for the three months ended March 31, 2007. Cost of rentals and fees expressed as a percentage of store rentals and fees revenue increased to 22.8% for the three months ended March 31, 2008 as compared to 21.7% for the three months ended March 31, 2007. This increase was due to an increase in promotional activity in the three months ended March 31, 2008 as compared to 2007.

Cost of Merchandise Sold. Cost of merchandise sold increased by \$17.3 million, or 37.6%, to \$63.3 million for the three months ended March 31, 2008 from \$46.0 million for the three months ended March 31, 2007. This increase was primarily the result of an increase in the number of items sold, as well as approximately \$5.2 million of cost of sales for prepaid telephone service offered in our stores during 2008 as compared to 2007. The gross margin percent of merchandise sales decreased to 25.8% for the three months ended March 31, 2008 from 32.6% for the three months ended March 31, 2007. This percentage decrease was primarily attributable to a decrease in the average purchase price on merchandise sales for the three months ended March 31, 2008 as compared to 2007, as a result of increased promotional activity during the 2008 period.

Salaries and Other Expenses. Salaries and other expenses decreased by \$3.3 million, or 0.8%, to \$417.4 million for the three months ended March 31, 2008 as compared to \$420.7 million in 2007. The decrease was primarily the result of a decrease in expenses associated with the decrease in our store base due to our 2007 store consolidation plan and other restructuring items. Charge offs in our rental stores due to customer stolen merchandise, expressed as a percentage of rental store revenues, were approximately 2.6% for the three months ended March 31, 2008 as compared to 2.4% in 2007. Salaries and other expenses expressed as a percentage of total store revenue decreased slightly to 56.0% for the three months ended March 31, 2008 from 56.5% in 2007.

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Franchise Cost of Merchandise Sold. Franchise cost of merchandise sold slightly decreased by \$91,000, or 1.0%, to \$9.4 million for the three months ended March 31, 2008 as compared to \$9.5 million in 2007. This decrease was primarily attributable to a decrease in the number of products sold to franchisees in the first quarter of 2008 as compared to 2007 due to fewer franchise stores in the first quarter of 2008.

General and Administrative Expenses. General and administrative expenses decreased by \$49,000, or 0.2%, to \$30.9 million for the three months ended March 31, 2008 as compared to \$31.0 million in 2007. General and administrative expenses expressed as a percentage of total revenue remained constant at 4.1% for the three months ended March 31, 2008 and 2007.

Amortization of Intangibles. Amortization of intangibles increased by \$892,000 or 22.1%, to \$4.9 million for the three months ended March 31, 2008 from \$4.0 million for the three months ended March 31, 2007. This increase was primarily attributable to the goodwill write-down for stores sold in the three months ended March 31, 2008.

Operating Profit. Operating profit increased by \$31.4 million, or 68.0%, to \$77.5 million for the three months ended March 31, 2008 as compared to \$46.2 million in 2007. Operating profit as a percentage of total revenue increased to 10.2% for the three months ended March 31, 2008 from 6.1% for the three months ended March 31, 2007. This increase was primarily attributable to the litigation charge of \$51.2 million recorded in the 2007 period, offset by a reduction in the margins on rentals and fees and merchandise sold, as discussed above.

Interest expense. Interest expense decreased by \$3.2 million, or 13.2%, to \$20.9 million for the three months ended March 31, 2008 as compared to \$24.1 million in 2007. This decrease was primarily attributable to a decrease in borrowings under our senior credit facilities in 2008 as compared to 2007, as well as a decrease in our weighted average interest rate to 7.10% during the first quarter of 2008 as compared to 7.76% during the first quarter of 2007 due to a decrease in the Eurodollar and prime interest rates in 2008 as compared to 2007.

Net Earnings. Net earnings increased by \$21.3 million, or 140.7%, to \$36.4 million for the three months ended March 31, 2008 as compared to \$15.1 million in 2007. This increase was primarily attributable to the after tax litigation charge in 2007 and a decrease in interest expense in 2008 as compared to 2007, offset by a reduction in the margins on rentals and fees and merchandise sold, as discussed above.

Liquidity and Capital Resources

Cash provided by operating activities increased by \$42.3 million to \$128.3 million for the three months ended March 31, 2008 from \$86.0 million in 2007. This increase is attributable to an increase in net earnings as well as changes in working capital.

Cash used in investing activities decreased by \$12.5 million to \$14.6 million for the three months ended March 31, 2008 from \$27.1 million in 2007. This decrease is primarily attributable to the completion of construction of our new corporate headquarters building in 2007.

Cash used in financing activities increased by \$61.3 million to \$132.4 million for the three months ended March 31, 2008 from \$71.1 million used in 2007. This increase in 2008 as compared to 2007 is primarily related to the payments on our revolving credit facility.

Liquidity Requirements. Our primary liquidity requirements are for debt service, rental merchandise purchases, capital expenditures, litigation expenses, including settlements or judgments, and implementation of our growth strategies, including investment in our financial services business. Our primary sources of liquidity have been cash provided by operations and borrowings. In the future, to provide any additional funds necessary for the continued pursuit of our operating and growth strategies, we may incur from time to time additional short-term or long-term bank indebtedness and may issue, in public or private transactions, equity and debt securities. The availability and attractiveness of any outside sources of financing will depend on a number of factors, some of which relate to our financial condition and performance, and some of which are beyond our control, such as prevailing interest rates and general financing and economic conditions. There can be no assurance that additional financing will be available, or if available, that it will be on terms we find acceptable.

We believe the cash flow generated from operations, together with amounts available under our senior credit facilities, will be sufficient to fund our liquidity requirements as discussed above during the next twelve months. Our revolving credit

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facilities, including our \$20.0 million line of credit at Intrust Bank, provide us with revolving loans in an aggregate principal amount not exceeding \$420.0 million, of which \$290.6 million was available at April 30, 2008. At April 30, 2008, we had \$42.6 million in cash. To the extent we have available cash that is not necessary to fund the items listed above, we intend to make additional payments to service our existing debt, and may repurchase additional shares of our common stock or repurchase some of our outstanding subordinated notes. While our operating cash flow has been strong and we expect this strength to continue, our liquidity could be negatively impacted if we do not remain as profitable as we expect.

A change in control would result in an event of default under our senior credit facilities, which would allow our lenders to accelerate the indebtedness owed to them. In addition, if a change in control occurs, we may be required to offer to repurchase all of our outstanding subordinated notes at 101% of their principal amount, plus accrued interest to the date of repurchase. Our senior credit facilities restrict our ability to repurchase the subordinated notes, including in the event of a change in control. In the event a change in control occurs, we cannot be sure we would have enough funds to immediately pay our accelerated senior credit facility obligations and all of the subordinated notes, or that we would be able to obtain financing to do so on favorable terms, if at all.

Litigation. As previously announced on February 4, 2008, we have reached a settlement with the plaintiffs to resolve the *Eric Shafer et al. v. Rent-A-Center, Inc.* and *Victor E. Johnson et al. v. Rent-A-Center, Inc.* coordinated matters pending in state court in Los Angeles, California. Under the terms of the settlement, which has now been documented, we anticipate we will pay an aggregate of \$11.0 million in cash, including settlement costs and plaintiff's attorneys fees, to be distributed to an agreed-upon class of our employees from May 1998 through March 31, 2008. We are entitled to any settlement fund monies not distributed under the terms of the settlement. To account for the aforementioned costs, we recorded a pre-tax expense of \$11.0 million during the fourth quarter of 2007. The terms of the settlement are subject to the parties obtaining court approval. A preliminary approval hearing is scheduled for May 19, 2008. While we believe that the terms of this settlement are fair, there can be no assurance that the settlement will be approved by the court in its present form.

In October 2006, we announced that we had reached a settlement with the California Attorney General to resolve the inquiry received in the second quarter of 2004 regarding our business practices in California with respect to cash prices and our membership program. Under the terms of the settlement, which has now been documented and approved by the court, we will create a restitution fund in the amount of approximately \$9.6 million in cash, to be distributed to certain groups of customers. We also agreed to a civil penalty in the amount of \$750,000, which was paid in February 2007. We expect to fund the restitution account as soon as reasonably practicable following the finalization with the Attorney General and the settlement administrator of the implementation procedures for the restitution program. To account for the aforementioned costs, as well as our attorneys' fees, we recorded a pre-tax charge of \$10.35 million in the third quarter of 2006.

We believe that the cash flow generated from operations, together with amounts available under our senior credit facilities, will be sufficient to fund the *Shafer/Johnson* and California Attorney General matters without adversely affecting our liquidity in a material way. Additional settlements or judgments against us on our existing litigation could affect our liquidity. Please refer to *Legal Proceedings* later in this report.

Deferred Taxes. On February 13, 2008, President Bush signed into law the Economic Stimulus Act of 2008 (the Stimulus Act). The Stimulus Act provides for accelerated depreciation by allowing a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property placed in service during 2008. Accordingly, our cash flow will benefit in 2008 from having a lower current cash tax obligation which, in turn, will provide additional cash flow from operations until the deferred tax liabilities begin to reverse in 2009. We estimate that our 2008 operating cash flow may increase by approximately \$60.0 million to \$70.0 million.

Rental Merchandise Purchases. We purchased \$215.5 million and \$232.4 million of rental merchandise during the three month periods ended March 31, 2008 and 2007, respectively.

Capital Expenditures. We make capital expenditures in order to maintain our existing operations as well as for new capital assets in new and acquired stores. We spent \$15.1 million and \$27.4 million on capital expenditures during the three month periods ended March 31, 2008 and 2007, respectively, and expect to spend approximately \$54.9 million

for the remainder of 2008, which includes amounts we intend to spend with respect to expanding our financial services business.

Acquisitions and New Store Openings. During the first three months of 2008, we acquired accounts from six locations, opened two new stores, consolidated 10 stores into existing locations and sold seven stores. The acquired stores and accounts were the result of five separate transactions with an aggregate purchase price of approximately \$1.4 million. Additionally,

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during the first quarter of 2008, we added financial services to seven existing rent-to-own store locations, closed one store and consolidated two stores with financial services into an existing location, ending the first quarter of 2008 with a total of 280 stores providing these services.

As of April 30, 2008, we have acquired accounts from seven locations, sold five stores and merged five stores with existing locations during the second quarter of 2008. Additionally, as of April 30, 2008, we have added financial services to 25 additional existing rent-to-own locations and closed one location during the second quarter of 2008. The profitability of our stores tends to grow at a slower rate approximately five years from the time we open or acquire them. As a result of the increasing maturity of our store base, in order for us to show improvements in our profitability, it is important for us to increase revenue in our existing stores. We intend to accomplish such revenue growth by offering new products and services, such as our financial services products, in our existing rent-to-own stores, and by acquiring customer accounts on favorable terms. There can be no assurance that we will be successful in adding financial services products to our existing rent-to-own stores, or that such operations will be as profitable as we expect, or at all. We also cannot assure you that we will be able to acquire customer accounts on favorable terms, or at all, or that we will be able to maintain the revenue from any such acquired customer accounts at the rates we expect, or at all.

Senior Credit Facilities. Our \$1,322.5 million senior credit facility consists of a \$197.5 million five-year term loan, with the loans thereunder being referred to by us as the tranche A term loans, a \$725.0 million six-year term loan, with the loans thereunder being referred to by us as the tranche B term loans, and a \$400.0 million five-year revolving credit facility. The tranche A term loans are payable in 19 consecutive quarterly installments equal to \$2.5 million from December 31, 2006 through June 30, 2009, \$5.0 million from September 30, 2009 through June 30, 2010 and \$37.5 million from September 30, 2010 through June 30, 2011. The tranche B term loans are repayable in 23 consecutive quarterly installments equal to approximately \$1.8 million from December 31, 2006 through June 30, 2011 and approximately \$172.6 million from September 30, 2011 through June 30, 2012.

The table below shows the scheduled maturity dates of our senior term loans outstanding at March 31, 2008.

Year Ending December 31,	(In thousands)
2008	\$ 12,951
2009	22,268
2010	92,268
2011	423,872
2012	255,238
	\$ 806,597

The full amount of the revolving credit facility may be used for the issuance of letters of credit, of which \$129.3 million had been utilized as of April 30, 2008. As of April 30, 2008, \$270.7 million was available under our revolving facility. The revolving credit facility expires in July 2011.

Borrowings under our senior credit facilities bear interest at varying rates equal to the Eurodollar rate plus .75% to 1.75%, or the prime rate plus up to .75%, at our election. The weighted average Eurodollar rate on our outstanding debt was 3.23% and 5.35% at March 31, 2008 and December 31, 2007, respectively. The margins on the Eurodollar rate and on the prime rate, which are initially 1.75 and 0.75, respectively, may fluctuate dependent upon an increase or decrease in our consolidated leverage ratio as defined by a pricing grid included in the credit agreement. We have not entered into any interest rate protection agreements with respect to term loans under the senior credit facilities. A commitment fee equal to 0.15% to 0.50% of the unused portion of the revolving facility is payable quarterly, and fluctuates dependent upon an increase or decrease in our consolidated leverage ratio. The initial commitment fee is equal to 0.50% of the unused portion of the revolving facility.

Our senior credit facilities are secured by a security interest in substantially all of our tangible and intangible assets, including intellectual property. Our senior credit facilities are also secured by a pledge of the capital stock of our wholly-owned U.S. subsidiaries (other than certain specified subsidiaries).

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Our senior credit facilities contain, without limitation, covenants that generally limit our ability to:
incur additional debt in excess of \$150 million at any one time outstanding;

repurchase our capital stock and 7 1/2% notes and pay cash dividends in the event the pro forma senior leverage ratio is greater than 2.50x;

incur liens or other encumbrances;

merge, consolidate or sell substantially all our property or business;

sell assets, other than inventory, in the ordinary course of business;

make investments or acquisitions unless we meet financial tests and other requirements;

make capital expenditures; or

enter into an unrelated line of business.

Our senior credit facilities require us to comply with several financial covenants, including a maximum consolidated leverage ratio of no greater than 3.5:1 for the period beginning December 31, 2007 through December 30, 2008 and 3.25:1 on or after December 31, 2008; and a minimum fixed charge coverage ratio of no less than 1.35:1. The table below shows the required and actual ratios under our credit facilities calculated as at March 31, 2008:

	Required Ratio	Actual Ratio
Maximum consolidated leverage ratio	No greater than 3.50:1	2.84:1
Minimum fixed charge coverage ratio	No less than 1.35:1	1.70:1

Events of default under our senior credit facilities include customary events, such as a cross-acceleration provision in the event that we default on other debt. In addition, an event of default under the senior credit facility would occur if a change of control occurs. This is defined to include the case where a third party becomes the beneficial owner of 35% or more of our voting stock or certain changes in Rent-A-Center's Board of Directors occurs. An event of default would also occur if one or more judgments were entered against us of \$30.0 million or more and such judgments were not satisfied or bonded pending appeal within 30 days after entry.

We utilize our revolving credit facility for the issuance of letters of credit, as well as to manage normal fluctuations in operational cash flow caused by the timing of cash receipts. In that regard, we may from time to time draw funds under the revolving credit facility for general corporate purposes. The funds drawn on individual occasions have varied in amounts of up to \$98.0 million, with total amounts outstanding ranging from \$2.0 million up to \$108.0 million. The amounts drawn are generally outstanding for a short period of time and are generally paid down as cash is received from our operating activities.

7 1/2% Senior Subordinated Notes. On May 6, 2003, we issued \$300.0 million in senior subordinated notes due 2010, bearing interest at 7 1/2%, pursuant to an indenture dated May 6, 2003, among Rent-A-Center, Inc., its subsidiary guarantors and The Bank of New York, as trustee. The proceeds of this offering were used to fund the repurchase and redemption of our then outstanding 11% senior subordinated notes.

The 2003 indenture contains covenants that limit our ability to:

incur additional debt;

sell assets or our subsidiaries;

grant liens to third parties;

pay cash dividends or repurchase stock (subject to a restricted payments basket for which approximately \$123.7 million was available for use as of March 31, 2008); and

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engage in a merger or sell substantially all of our assets.

Events of default under the 2003 indenture include customary events, such as a cross-acceleration provision in the event that we default in the payment of other debt due at maturity or upon acceleration for default in an amount exceeding \$50.0 million, as well as in the event a judgment is entered against us in excess of \$50.0 million that is not discharged, bonded or insured.

The 7¹/₂% notes may be redeemed on or after May 1, 2006, at our option, in whole or in part, at a premium declining from 103.75%. The 7¹/₂% notes also require that upon the occurrence of a change of control (as defined in the 2003 indenture), the holders of the notes have the right to require us to repurchase the notes at a price equal to 101% of the original aggregate principal amount, together with accrued and unpaid interest, if any, to the date of repurchase. This would trigger an event of default under our senior credit facilities. We are not required to maintain any financial ratios under the 2003 indenture.

Store Leases. We lease space for substantially all of our stores and service center locations, as well as regional offices, under operating leases expiring at various times through 2015. Most of our store leases are five year leases and contain renewal options for additional periods ranging from three to five years at rental rates adjusted according to agreed-upon formulas.

ColorTyme Guarantee. ColorTyme is a party to an agreement with Wells Fargo Foothill, Inc. (Wells Fargo), who provides \$35.0 million in aggregate financing to qualifying franchisees of ColorTyme generally up to five times their average monthly revenues. Under the Wells Fargo agreement, upon an event of default by the franchisee under agreements governing this financing and upon the occurrence of certain other events, Wells Fargo can assign the loans and the collateral securing such loans to ColorTyme, with ColorTyme paying the outstanding debt to Wells Fargo and then succeeding to the rights of Wells Fargo under the debt agreements, including the right to foreclose on the collateral. The Wells Fargo agreement expires on September 30, 2010. An additional \$20.0 million of financing is provided by Texas Capital Bank, National Association (Texas Capital Bank) under an agreement similar to the Wells Fargo financing. Rent-A-Center East, Inc., a subsidiary of Rent-A-Center, guarantees the obligations of ColorTyme under each of these agreements, excluding the effects of any amounts that could be recovered under collateralization provisions, up to a maximum amount of \$55.0 million, of which \$28.3 million was outstanding as of March 31, 2008. Mark E. Speese, Rent-A-Center's Chairman of the Board and Chief Executive Officer, is a passive investor in Texas Capital Bank, owning less than 1% of its outstanding equity.

Contractual Cash Commitments. The table below summarizes debt, lease and other minimum cash obligations outstanding as of March 31, 2008:

Contractual Cash Obligations	Total	Payments Due by Period			Thereafter
		2008	2009-2010	2011-2012	
		(In thousands)			
Senior Credit Facilities (including current portion)	\$ 825,238 ⁽¹⁾	\$ 31,592	\$ 114,536	\$ 679,110	\$
7 ¹ / ₂ % Senior Subordinated Notes ⁽²⁾	356,250	22,500	333,750		
Operating Leases	506,411	135,529	262,939	101,274	6,669
Capital Leases	13,335	4,632	7,504	1,199	
Total ⁽³⁾	\$ 1,701,234	\$ 194,253	\$ 718,729	\$ 781,583	\$ 6,669

- (1) Includes amounts due under the Intrust line of credit. Amount referenced does

not include interest payments. Our senior credit facilities bear interest at varying rates equal to the Eurodollar rate plus .75% to 1.75% or the prime rate plus up to .75% at our election. The weighted average Eurodollar rate on our outstanding debt at March 31, 2008 was 3.23%.

- (2) Includes interest payments of \$11.25 million on each of May 1 and November 1 of each year.
- (3) As of March 31, 2008, we have \$7.8 million in uncertain tax positions, net of federal benefit. Because of the uncertainty of the amounts to be ultimately paid as well as the timing of such payments, these liabilities are not reflected in the contractual obligations table.

Repurchases of Outstanding Securities. Our Board of Directors has authorized a common stock repurchase program, permitting us to purchase, from time to time, in the open market and privately negotiated transactions, up to an

aggregate of \$500.0 million of Rent-A-Center common stock. As of March 31, 2008, we had purchased a total of 18,460,950 shares of Rent-A-Center common stock for an aggregate of \$444.3 million under this common stock repurchase program.

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Economic Conditions. Although our performance has not suffered in previous economic downturns, we cannot assure you that demand for our products, particularly in higher price ranges, will not significantly decrease in the event of a prolonged recession. Fluctuations in our targeted customers' monthly disposable income could adversely impact our results of operations.

Restructuring. Our expected total cash outlay related to the 2007 store consolidation plan and other restructuring items is expected to be between \$26.1 million and \$30.4 million. The total amount of cash used through March 31, 2008 was approximately \$7.3 million, which primarily related to lease terminations. We expect to use approximately \$18.8 million to \$23.1 million of cash on hand for future payments, which will primarily relate to the satisfaction of lease obligations at the stores. We expect the lease obligations will be substantially settled in twelve to eighteen months, with total completion no later than the second quarter of 2013. Please refer to Note 7, Restructuring, in the Notes to Consolidated Financial Statements on page 6 of this report for more information on our 2007 store consolidation plan.

Seasonality. Our revenue mix is moderately seasonal, with the first quarter of each fiscal year generally providing higher merchandise sales than any other quarter during a fiscal year, primarily related to federal income tax refunds. Generally, our customers will more frequently exercise their early purchase option on their existing rental purchase agreements or purchase pre-leased merchandise off the showroom floor during the first quarter of each fiscal year. We expect this trend to continue in future periods. Furthermore, we tend to experience slower growth in the number of rental purchase agreements on rent in the third quarter of each fiscal year when compared to other quarters throughout the year. As a result, we would expect revenues for the third quarter of each fiscal year to remain relatively flat with the prior quarter. We expect this trend to continue in future periods unless we add significantly to our store base during the third quarter of future fiscal years as a result of new store openings or opportunistic acquisitions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.**Interest Rate Sensitivity**

As of March 31, 2008, we had \$300.0 million in subordinated notes outstanding at a fixed interest rate of 7¹/₂%, \$806.6 million in term loans and \$18.6 million outstanding on our Intrust line of credit at interest rates indexed to the Eurodollar rate. The fair value of the 7¹/₂% subordinated notes at March 31, 2008 was \$289.5 million, estimated based on discounted cash flow analysis using interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest rates. Our primary market risk exposure is fluctuations in interest rates. Monitoring and managing this risk is a continual process carried out by our senior management. We manage our market risk based on an ongoing assessment of trends in interest rates and economic developments, giving consideration to possible effects on both total return and reported earnings.

Interest Rate Risk

We hold long-term debt with variable interest rates indexed to prime or Eurodollar rate that exposes us to the risk of increased interest costs if interest rates rise. As of March 31, 2008, we have not entered into any interest rate swap agreements. Based on our overall interest rate exposure at March 31, 2008, a hypothetical 1.0% increase or decrease in interest rates would have the effect of causing a \$8.4 million additional pre-tax charge or credit to our statement of earnings.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding

required disclosure. Based on that evaluation, our management,

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RENT-A-CENTER, INC. AND SUBSIDIARIES

including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective.

Changes in internal controls. For the quarter ended March 31, 2008, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**RENT-A-CENTER, INC. AND SUBSIDIARIES****PART II Other Information****Item 1. Legal Proceedings.**

From time to time, we, along with our subsidiaries, are party to various legal proceedings arising in the ordinary course of business. We account for our litigation contingencies pursuant to the provisions of SFAS No. 5 and FIN 14, which require that we accrue for losses that are both probable and reasonably estimable. We expense legal fees and expenses incurred in connection with the defense of all of our litigation at the time such amounts are invoiced or otherwise made known to us.

As of March 31, 2008, we had accrued \$21.7 million relating to probable losses for our outstanding litigation as follows (in millions):

<i>Shafer/Johnson Matter</i>	\$ 11.0
<i>California Attorney General Settlement</i>	9.6
<i>Other Litigation</i>	1.1
Total Accrual	\$ 21.7

We continue to monitor our litigation exposure, and will review the adequacy of our legal reserves on a quarterly basis in accordance with applicable accounting rules. Please refer to *Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies Involving Critical Estimates, Uncertainties or Assessments in Our Financial Statements* regarding our process for evaluating our litigation reserves. Except as described below, we are not currently a party to any material litigation and, other than as set forth above, we have not established any other reserves for our outstanding litigation.

Colon v. Thorn Americas, Inc. The plaintiff filed this putative class action in November 1997 in New York state court. This matter was assumed by us in connection with the Thorn Americas acquisition in 1998. The plaintiff acknowledges that rent-to-own transactions in New York are subject to the provisions of New York's Rental Purchase Statute but contends the Rental Purchase Statute does not provide us immunity from suit for other statutory violations. The plaintiff alleges we have a duty to disclose effective interest under New York consumer protection laws, and seeks damages and injunctive relief for failure to do so. This suit also alleges violations relating to excessive and unconscionable pricing, late fees, harassment, undisclosed charges, and the ease of use and accuracy of payment records. In the prayer for relief, the plaintiff requests class certification, injunctive relief requiring us to cease certain marketing practices and price our rental purchase contracts in certain ways, unspecified compensatory and punitive damages, rescission of the class members contracts, an order placing in trust all monies received by us in connection with the rental of merchandise during the class period, treble damages, attorney's fees, filing fees and costs of suit, pre- and post-judgment interest, and any further relief granted by the court. The plaintiff has not alleged a specific monetary amount with respect to the request for damages.

The proposed class includes all New York residents who were party to our rent-to-own contracts from November 26, 1994. In November 2000, following interlocutory appeal by both parties from the denial of cross-motions for summary judgment, we obtained a favorable ruling from the Appellate Division of the State of New York, dismissing the plaintiff's claims based on the alleged failure to disclose an effective interest rate. The plaintiff's other claims were not dismissed. The plaintiff moved to certify a state-wide class in December 2000. The plaintiff's class certification motion was heard by the court on November 7, 2001 and, on September 12, 2002, the court issued an opinion denying in part and granting in part the plaintiff's requested certification. The opinion grants certification as to all of the plaintiff's claims except the plaintiff's pricing claims pursuant to the Rental Purchase Statute, as to which certification was denied. The parties have differing views as to the effect of the court's opinion, and accordingly, the court granted the parties permission to submit competing orders as to the effect of the opinion on the plaintiff's specific claims. Both proposed orders were submitted to the court on March 27, 2003, and on May 30, 2003, the court held a hearing regarding such orders. No clarifying order has yet been entered by the court.

From June 2003 until May 2005, there was no activity in this case. On May 18, 2005, we filed a motion to dismiss the plaintiff's claim and to decertify the class, based upon the plaintiff's failure to schedule her claim in this matter in her earlier voluntary bankruptcy proceeding. The plaintiff opposed our motion to dismiss the case and asked the court to grant it an opportunity to find a substitute class representative in the event the court determined Ms. Colon was no longer adequate. On January 17, 2006, the court issued an order denying our motion to dismiss, but indicated that Ms. Colon was not a suitable class representative and noted that no motion to intervene to add additional class representatives had been filed. On March 14, 2006, plaintiffs' counsel filed a motion seeking leave to intervene Shaun Kelly as an additional class

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representative. In response to plaintiffs' motion, the court ordered the parties to confer regarding a possible mediation and ruled that we could depose Mr. Kelly before filing any objection to his intervention. Plaintiffs' counsel did not respond to our repeated requests to schedule Mr. Kelly's deposition or schedule a mediation. Accordingly, on January 30, 2007, we filed a notice pursuant to the applicable rules requiring the plaintiff to serve notice of its intent to proceed with its case within 90 days.

On April 27, 2007, the plaintiff filed a reply to our notice, and on that same date plaintiffs' counsel offered to produce Mr. Kelly for deposition. In the reply to our notice, the plaintiff moved the court for an additional 180 days in which to conduct discovery before filing a formal response to our notice, or in the alternative, the plaintiff asked to be permitted to file its response immediately and to conduct some limited discovery while awaiting a trial date. Plaintiff's motion resulted in a notice from the court, which we received on May 7, 2007, that the case had been dismissed on June 2, 2006, due to the parties' failure to appear at a court-ordered conference of which neither we, nor to our knowledge, plaintiff had notice. We also did not have notice of the dismissal order. On May 1, 2007, plaintiff filed a motion to vacate the dismissal order and to restore the case to the court's calendar, which we opposed. On July 16, 2007, the court denied plaintiff's motion to vacate the dismissal order and we served notice of entry of the court's order on July 26, 2007. On August 20, 2007, plaintiff filed a notice of appeal from the July 16, 2007 order and, on August 21, 2007, plaintiff filed a motion to reargue and/or renew the motion to vacate based on new affidavit evidence not submitted with the original motion. We opposed the motion for reargument and/or renewal on grounds that it did not establish a valid basis to reverse the July 16, 2007 order. By order dated December 5, 2007, the court granted plaintiff's motion to reargue, and upon reargument, confirmed its July 16, 2007 decision denying plaintiff's motion to vacate the dismissal. At the same time, the court ruled that our pending motion to decertify the class and/or dismiss the case was deemed moot. Plaintiff's counsel now has until May 20, 2008 to perfect an appeal from the July 16, 2007 order to the Appellate Division, First Department, by filing a brief and record. Plaintiff's appeal, if perfected, will be based upon the record made in connection with plaintiff's original motion to vacate.

We believe these claims are without merit and will continue to vigorously defend ourselves in this case. However, we cannot assure you that we will be found to have no liability in this matter.

Terry Walker, et al. v. Rent-A-Center, Inc., et al. The order approving the settlement with the plaintiffs to resolve this matter became final and non-appealable on March 7, 2008. Under the terms of the settlement, our insurance carrier paid an aggregate of \$3.6 million in cash, to be distributed to an agreed upon class of claimants who purchased our common stock from April 25, 2001 through October 8, 2001, as well as used to pay costs of notice and settlement administration, and plaintiffs' attorneys' fees and expenses. In connection with the settlement, neither we nor any officer and director defendants are admitting liability for any securities laws violations.

California Attorney General Inquiry. In October 2006, we announced that we had reached a settlement with the California Attorney General to resolve the inquiry received in the second quarter of 2004 regarding our business practices in California with respect to cash prices and our membership program. Under the terms of the settlement, which has now been documented and approved by the court, we will create a restitution fund in the amount of approximately \$9.6 million in cash, to be distributed to certain groups of customers. Restitution checks will contain a restrictive endorsement releasing us from claims that arise from or relate to the cash price set forth in the rental purchase agreement and the customer's purchase of the Preferred Customer Club. We are working with the Attorney General and the settlement administrator to finalize the implementation procedures for the restitution program and expect to fund the restitution account as soon as reasonably practicable following the finalization of such procedures. We also agreed to a civil penalty in the amount of \$750,000, which was paid in the first quarter of 2007. To account for the aforementioned costs, as well as our attorneys' fees, we recorded a pre-tax charge of \$10.35 million in the third quarter of 2006.

State Wage and Hour Class Actions

Eric Shafer, et al. v. Rent-A-Center, Inc. As previously announced on February 4, 2008, we have reached a settlement with the plaintiffs to resolve the *Eric Shafer et al. v. Rent-A-Center, Inc.* and *Victor E. Johnson et al. v.*

Rent-A-Center, Inc. coordinated matters pending in state court in Los Angeles, California. These matters allege violations by us of certain wage and hour laws of California. Under the terms of the settlement, which has now been

documented, we anticipate we will pay an aggregate of \$11.0 million in cash, including settlement costs and plaintiffs attorneys' fees, to be distributed to an agreed-upon class of our employees from May 1998 through March 31, 2008. We are entitled to any settlement fund monies not distributed under the terms of the settlement. In connection with the settlement, we are not admitting liability for our wage and hour practices in California. To account for the aforementioned costs, we recorded a pre-tax expense of \$11.0 million during the fourth quarter of 2007. The terms of the settlement are subject to the parties obtaining court approval. A

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RENT-A-CENTER, INC. AND SUBSIDIARIES

preliminary approval hearing is scheduled for May 19, 2008. While we believe that the terms of this settlement are fair, there can be no assurance that the settlement will be approved by the court in its present form. We believe that the cash flow generated from operations, together with amounts available under our senior credit facilities, will be sufficient to fund this settlement without adversely affecting our liquidity in a material way.

Item 1A. Risk Factors.

You should carefully consider the risks described below before making an investment decision. We believe these are all the material risks currently facing our business. Our business, financial condition or results of operations could be materially adversely affected by these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. You should also refer to the other information included in this report, including our financial statements and related notes.

We may not be able to successfully increase revenue in our rent-to-own stores, which could cause our future earnings to grow more slowly or even decrease.

Our continued growth depends on our ability to increase sales in our existing rent-to-own stores. For the three months ended March 31, 2008, our same store sales increased by 2.8% compared to the three months ended March 31, 2007. Our same store sales increased by 2.1% and 1.9% for all of 2007 and 2006, respectively, and decreased by 2.3% for all of 2005. As a result of new store openings in existing markets and because mature stores will represent an increasing proportion of our store base over time, our same store revenues in future periods may be lower than historical levels. If we are unable to increase revenue in our rent-to-own stores, our earnings may grow more slowly or even decrease.

Our business depends on a limited number of key personnel. The loss of any one of these individuals could disrupt our business.

Our continued success is highly dependent upon the personal efforts and abilities of our executive management. While we do have an employment agreement with Mark E. Speese, our Chairman of the Board and Chief Executive Officer, we do not have employment contracts with any other member of executive management, including Mitchell E. Fadel, our President and Chief Operating Officer. In addition, we do not maintain key-person insurance on the lives of any of these officers and the loss of any one of them could disrupt our business.

If we fail to effectively manage the growth and integration of our financial services business, we may not realize the economic benefit of our financial investment in such operations.

A primary focus of our growth strategy is expansion into the financial services business. We face risks associated with integrating this new business into our existing operations, including the development of appropriate information technology and financial reporting systems. Further, a newly opened financial services location generally does not attain positive cash flow during its first year of operations. In addition, the financial services industry is highly competitive and regulated by federal, state and local laws.

Our expansion into the financial services business could place a significant demand on our management and our financial and operational resources. If we are unable to effectively implement our financial services business, we may not realize the operational benefits of our investment in the financial services business that we currently expect.

Rent-to-own transactions are regulated by law in most states. Any adverse change in these laws or the passage of adverse new laws could expose us to litigation or require us to alter our business practices.

As is the case with most businesses, we are subject to various governmental regulations, including specifically in our case, regulations regarding rent-to-own transactions. Currently, 47 states, the District of Columbia and Puerto Rico have passed laws regulating rental purchase transactions and one additional state has a retail installment sales statute that excludes rent-to-own transactions from its coverage if certain criteria are met. These laws generally require certain contractual and advertising disclosures. They also provide varying levels of substantive consumer protection, such as requiring a grace period for late fees and contract reinstatement rights in the event the rental purchase agreement is terminated. The rental purchase laws of ten states limit the total amount of rentals that may be charged over the life of a rental purchase agreement. Several states also effectively regulate rental purchase transactions under other consumer protection statutes. We are currently subject to litigation alleging that we have violated some of these statutory provisions.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Although there is currently no comprehensive federal legislation regulating rental purchase transactions, adverse federal legislation may be enacted in the future. From time to time, legislation has been introduced in Congress seeking to regulate our business. In addition, various legislatures in the states where we currently do business may adopt new legislation or amend existing legislation that could require us to alter our business practices.

Financial services transactions are regulated by federal law as well as the laws of certain states. Any adverse changes in these laws or the passage of adverse new laws with respect to the financial services business could slow our growth opportunities, expose us to litigation or alter our business practices in a manner that we may deem to be unacceptable.

Our financial services business is subject to federal statutes and regulations such as the USA Patriot Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Gramm-Leach-Bliley Act, the Fair Debt Collection Practices Act, the Anti-Money Laundering Act, and similar state laws. In addition, we are subject to various state regulations regarding the terms of our short term consumer loans and our policies, procedures and operations relating to those loans, including the fees we may charge, as well as fees we may charge in connection with our other financial services products. Congress and/or the various legislatures in the states where we currently operate or intend to offer financial services products may adopt new legislation or amend existing legislation with respect to our financial services business that could require us to alter our business practices in a manner that we may deem to be unacceptable, which could slow our growth opportunities.

We may be subject to legal proceedings from time to time which seek material damages. The costs we incur in defending ourselves or associated with settling any of these proceedings, as well as a material final judgment or decree against us, could materially adversely affect our financial condition by requiring the payment of the settlement amount, a judgment or the posting of a bond.

In our history, we have defended class action lawsuits alleging various regulatory violations and have paid material amounts to settle such claims. We cannot assure you that we will not be the subject of similar lawsuits in the future. Significant settlement amounts or final judgments could materially and adversely affect our liquidity. The failure to pay any material judgment would be a default under our senior credit facilities and the indenture governing our outstanding subordinated notes.

Our debt agreements impose restrictions on us which may limit or prohibit us from engaging in certain transactions. If a default were to occur, our lenders could accelerate the amounts of debt outstanding, and holders of our secured indebtedness could force us to sell our assets to satisfy all or a part of what is owed.

Covenants under our senior credit facilities and the indenture governing our outstanding subordinated notes restrict our ability to pay dividends, engage in various operational matters, as well as require us to maintain specified financial ratios. Our ability to meet these financial ratios may be affected by events beyond our control. These restrictions could limit our ability to obtain future financing, make needed capital expenditures or other investments, repurchase our outstanding debt or equity, withstand a future downturn in our business or in the economy, dispose of operations, engage in mergers, acquire additional stores or otherwise conduct necessary corporate activities. Various transactions that we may view as important opportunities, such as specified acquisitions, are also subject to the consent of lenders under the senior credit facilities, which may be withheld or granted subject to conditions specified at the time that may affect the attractiveness or viability of the transaction.

If a default were to occur, the lenders under our senior credit facilities could accelerate the amounts outstanding under the credit facilities, and our other lenders could declare immediately due and payable all amounts borrowed under other instruments that contain certain provisions for cross-acceleration or cross-default. In addition, the lenders under these agreements could terminate their commitments to lend to us. If the lenders under these agreements accelerate the repayment of borrowings, we may not have sufficient liquid assets at that time to repay the amounts then outstanding under our indebtedness or be able to find additional alternative financing. Even if we could obtain additional alternative financing, the terms of the financing may not be favorable or acceptable to us.

The existing indebtedness under our senior credit facilities is secured by substantially all of our assets. Should a default or acceleration of this indebtedness occur, the holders of this indebtedness could sell the assets to satisfy all or a part of what is owed. Our senior credit facilities also contain certain provisions limiting our ability to modify or

refinance our outstanding subordinated notes.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

A change of control could accelerate our obligation to pay our outstanding indebtedness, and we may not have sufficient liquid assets to repay these amounts.

Under our senior credit facilities, an event of default would result if a third party became the beneficial owner of 35.0% or more of our voting stock or upon certain changes in the constitution of Rent-A-Center's Board of Directors. As of March 31, 2008, \$806.6 million was outstanding under our senior credit facilities.

Under the indenture governing our outstanding subordinated notes, in the event that a change in control occurs, we may be required to offer to purchase all of our outstanding subordinated notes at 101% of their original aggregate principal amount, plus accrued interest to the date of repurchase. A change in control also would result in an event of default under our senior credit facilities, which would allow our lenders to accelerate indebtedness owed to them. If the lenders under our debt instruments accelerate these obligations, we may not have sufficient liquid assets to repay amounts outstanding under these agreements.

Rent-A-Center's organizational documents and our debt instruments contain provisions that may prevent or deter another group from paying a premium over the market price to Rent-A-Center's stockholders to acquire its stock.

Rent-A-Center's organizational documents contain provisions that classify its Board of Directors, authorize its Board of Directors to issue blank check preferred stock and establish advance notice requirements on its stockholders for director nominations and actions to be taken at annual meetings of the stockholders. In addition, as a Delaware corporation, Rent-A-Center is subject to Section 203 of the Delaware General Corporation Law relating to business combinations. Our senior credit facilities and the indenture governing our subordinated notes each contain various change of control provisions which, in the event of a change of control, would cause a default under those provisions. These provisions and arrangements could delay, deter or prevent a merger, consolidation, tender offer or other business combination or change of control involving us that could include a premium over the market price of Rent-A-Center's common stock that some or a majority of Rent-A-Center's stockholders might consider to be in their best interests.

Rent-A-Center is a holding company and is dependent on the operations and funds of its subsidiaries.

Rent-A-Center is a holding company, with no revenue generating operations and no assets other than its ownership interests in its direct and indirect subsidiaries. Accordingly, Rent-A-Center is dependent on the cash flow generated by its direct and indirect operating subsidiaries and must rely on dividends or other intercompany transfers from its operating subsidiaries to generate the funds necessary to meet its obligations, including the obligations under the senior credit facilities and the outstanding subordinated notes. The ability of Rent-A-Center's subsidiaries to pay dividends or make other payments to it is subject to applicable state laws. Should one or more of Rent-A-Center's subsidiaries be unable to pay dividends or make distributions, its ability to meet its ongoing obligations could be materially and adversely impacted.

Our stock price is volatile, and you may not be able to recover your investment if our stock price declines.

The price of our common stock has been volatile and can be expected to be significantly affected by factors such as: quarterly variations in our results of operations, which may be impacted by, among other things, changes in same store sales, when and how many rent-to-own stores we acquire or open, and the rate at which we add financial services to our existing rent-to-own stores; quarterly variations in our competitors' results of operations; changes in earnings estimates or buy/sell recommendations by financial analysts; the stock price performance of comparable companies; and general market conditions or market conditions specific to particular industries.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business and stock price.

Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our brand and operating results could be harmed. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

While we continue to evaluate and improve our internal controls, we cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

Item 6. Exhibits.

The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

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RENT-A-CENTER, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Report to be signed on its behalf by the undersigned duly authorized officer.

RENT-A-CENTER, INC.

By: /s/ Robert D. Davis
Robert D. Davis
Executive Vice President-Finance,
Chief Financial Officer and Treasurer

Date: May 2, 2008

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**RENT-A-CENTER, INC. AND SUBSIDIARIES
INDEX TO EXHIBITS**

Exhibit No.	Description
3.1	Certificate of Incorporation of Rent-A-Center, Inc., as amended (Incorporated herein by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K dated as of December 31, 2002.)
3.2	Certificate of Amendment to the Certificate of Incorporation of Rent-A-Center, Inc., dated May 19, 2004 (Incorporated herein by reference to Exhibit 3.2 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
3.3	Amended and Restated Bylaws of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 3.(ii) to the registrant's Current Report on Form 8-K dated as of September 20, 2005.)
4.1	Form of Certificate evidencing Common Stock (Incorporated herein by reference to Exhibit 4.1 to the registrant's Registration Statement on Form S-4/A filed on January 13, 1999.)
4.2	Indenture, dated as of May 6, 2003, by and among Rent-A-Center, Inc., as Issuer, Rent-A-Center East, Inc., ColorTyme, Inc., Rent-A-Center West, Inc., Get It Now, LLC, Rent-A-Center Texas, L.P. and Rent-A-Center Texas, L.L.C., as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.)
4.3	First Supplemental Indenture, dated as of December 4, 2003, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.6 to the registrant's Annual Report on Form 10-K/A for the year ended December 31, 2003.)
4.4	Second Supplemental Indenture, dated as of April 26, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.)
4.5	Third Supplemental Indenture, dated as of May 7, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.8 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
4.6	Fourth Supplemental Indenture, dated as of May 14, 2004, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.9 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
4.7	Fifth Supplemental Indenture, dated as of June 30, 2005, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
4.8	

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Sixth Supplemental Indenture, dated as of April 17, 2006, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)

- 4.9 Seventh Supplemental Indenture, dated as of October 17, 2006, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.11 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
- 4.10 Eighth Supplemental Indenture, dated as of November 15, 2006, between Rent-A-Center, Inc., as Issuer, the Guarantors named therein, as Guarantors, and The Bank of New York, as Trustee (Incorporated herein by reference to Exhibit 4.12 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
- 10.1 Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.)

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Exhibit No.	Description
10.2	Amended and Restated Guarantee and Collateral Agreement, dated as of May 28, 2003, as amended and restated as of July 14, 2004, made by Rent-A-Center, Inc. and certain of its Subsidiaries in favor of JPMorgan Chase Bank, as Administrative Agent (Incorporated herein by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K dated July 15, 2004.)
10.3	Franchisee Financing Agreement, dated April 30, 2002, but effective as of June 28, 2002, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 10.14 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.)
10.4	Supplemental Letter Agreement to Franchisee Financing Agreement, dated May 26, 2003, by and between Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 10.23 to the registrant's Registration Statement on Form S-4 filed July 11, 2003.)
10.5	First Amendment to Franchisee Financing Agreement, dated August 30, 2005, by and among Texas Capital Bank, National Association, ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.)
10.6	Amended and Restated Franchise Financing Agreement, dated October 1, 2003, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.)
10.7	First Amendment to Amended and Restated Franchisee Financing Agreement, dated December 15, 2003, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K/A for the year ended December 31, 2003.)
10.8	Second Amendment to Amended and Restated Franchisee Financing Agreement, dated as of March 1, 2004, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.24 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.)
10.9	Third Amendment to Amended and Restated Franchisee Financing Agreement, dated as of September 29, 2006, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.10 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.10	Fourth Amendment to Amended and Restated Franchisee Financing Agreement, dated as of December 19, 2006, by and among Wells Fargo Foothill, Inc., ColorTyme, Inc. and Rent-A-Center East, Inc. (Incorporated herein by reference to Exhibit 10.10 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.11	

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Form of Stock Option Agreement issuable to Directors pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)

- 10.12 Form of Stock Option Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.21 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2004.)
- 10.13 Summary of Director Compensation (Incorporated herein by reference to Exhibit 10.13 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
- 10.14 Form of Stock Compensation Agreement issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.15 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.)
- 10.15 Form of Long-Term Incentive Cash Award issuable to management pursuant to the Amended and Restated Rent-A-Center, Inc. Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.16 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.)
- 10.16 Form of Loyalty and Confidentiality Agreement entered into with management (Incorporated herein by reference to Exhibit 10.17 to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006.)

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Exhibit No.	Description
10.17	Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.17 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
10.18	Form of Stock Option Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.18 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
10.19	Form of Stock Compensation Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Equity Incentive Plan (Incorporated herein by reference to Exhibit 10.19 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.20	Form of Long-Term Incentive Cash Award issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.20 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.21	Rent-A-Center, Inc. 2006 Equity Incentive Plan and Amendment (Incorporated herein by reference to Exhibit 4.5 to the registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on January 4, 2007)
10.22	Form of Stock Option Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Equity Incentive Plan (Incorporated herein by reference to Exhibit 10.22 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.23	Form of Stock Compensation Agreement issuable to management pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.23 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.24	Form of Stock Option Agreement issuable to Directors pursuant to the Rent-A-Center, Inc. 2006 Long-Term Incentive Plan (Incorporated herein by reference to Exhibit 10.24 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)
10.25	Form of Executive Transition Agreement entered into with management (Incorporated herein by reference to Exhibit 10.21 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.26	Employment Agreement, dated October 2, 2006, between Rent-A-Center, Inc. and Mark E. Speese (Incorporated herein by reference to Exhibit 10.22 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.27	Non-Qualified Stock Option Agreement, dated October 2, 2006, between Rent-A-Center, Inc. and Mark E. Speese (Incorporated herein by reference to Exhibit 10.23 to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.28	Rent-A-Center, Inc. Non-Qualified Deferred Compensation Plan (Incorporated herein by reference to Exhibit 10.28 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)

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- 10.29 Second Amended and Restated Credit Agreement, dated as of July 13, 2006, among Rent-A-Center, Inc., the several banks and other financial institutions or entities from time to time parties thereto, Union Bank of California, N.A., as documentation agent, Lehman Commercial Paper Inc., as syndication agent, and JPMorgan Chase Bank, N.A., as administrative agent (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated July 13, 2006.)
- 10.30 Third Amended and Restated Credit Agreement, dated as of November 15, 2006, among Rent-A-Center, Inc., the several banks and other financial institutions or entities from time to time parties thereto, Union Bank of California, N.A., as documentation agent, Lehman Commercial Paper Inc., as syndication agent, and JPMorgan Chase Bank, N.A., as administrative agent (Incorporated herein by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K dated November 15, 2006.)
- 21.1 Subsidiaries of Rent-A-Center, Inc. (Incorporated herein by reference to Exhibit 21.1 to the registrant's Annual Report on Form 10-K for the year ended December 31, 2007.)
- 31.1* Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese
- 31.2* Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis
- 32.1* Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Mark E. Speese

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RENT-A-CENTER, INC. AND SUBSIDIARIES

Exhibit No.	Description
32.2*	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Robert D. Davis

Management
contract or
compensatory
plan or
arrangement

* Filed herewith.